

**DRAFT MINUTES OF THE BOARD OF DIRECTORS OF
THE TEXAS REGIONAL ENTITY DIVISION OF
ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**

Room 206, Met Center, 7620 Metro Center Drive, Austin, Texas 78744

December 14, 2009

Directors

Jan Newton, Chair		Unaffiliated
Michehl Gent, Vice Chair		Unaffiliated
Barry T. Smitherman	Chairman, Public Utility Commission of Texas (PUC)	
Mark Armentrout		Unaffiliated
Calvin Crowder	American Electric Power Service Corporation	Investor Owned Utility
Andrew Dalton	Valero	Industrial Consumer
Miguel Espinosa		Unaffiliated
Nick Fehrenbach	City of Dallas	Commercial Consumer
Bob Helton	International Power America	Independent Generator
Clifton Karnei	Brazos Electric Cooperative	Cooperative
A.D. Patton		Unaffiliated
Robert Thomas	Green Mountain Energy Co.	Independent REP
Gary Torrent ¹	Office of Public Utility Counsel (OPUC)	Residential Small Consumer

Segment Alternates

Mark Walker	NRG	Independent Generator
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Other Attendees (Attending in person)

Larry Grimm, Texas RE CEO & CCO
 Susan Vincent, Texas RE Director, Legal Affairs
 Derrick Davis, Texas RE Corporate Counsel
 Jeff Whitmer, Texas RE Manager, Compliance Enforcement (via telephone)
 Betty Sachnik, Texas RE Executive Assistant
 Sarah Hensley, Texas RE Standards Coordinator
 Jennifer Taylor, Texas RE Senior Paralegal
 Kip Fox, AEP
 Lea Anne Porter, ERCOT ISO
 Bridget Headrick, Public Utility Commission of Texas
 Note: Other attendees attended by publicly available conference call

¹ Don Ballard designated Gary Torrent as his Alternative Representative for this meeting.

Call to Order

Pursuant to notice duly given, the meeting of the Texas Regional Entity (Texas RE) Board of Directors (Board) convened on December 14, 2009. Chair Jan Newton ascertained that a quorum was present, reviewed the Antitrust Admonition with the Directors, and called the meeting to order at approximately 1:33 p.m.

Approval of Previous Minutes

Bob Helton made a motion to approve the minutes. Michehl Gent seconded the motion. The motion passed by voice vote with abstentions from Calvin Crowder and Robert Thomas.

CEO Report

Chief Executive Officer (CEO) Larry Grimm provided the Board with a brief information technology (IT) update and discussed the Texas RE website statistics. Mr. Grimm advised the Board that Texas RE has obtained approval from North American Electric Reliability Corporation (NERC) for its 2010 Compliance Monitoring and Enforcement Program, which will begin on January 1st. Mr. Grimm also updated the Board on his and Ms. Vincent's recent meeting with NERC and Federal Energy Regulatory Commission (FERC) officials on December 7, 2009. He reported that the meeting was well received and well attended by FERC staff. Mr. Grimm reported that Texas RE had retained an information technology (IT) consultant to oversee and act as project manager for the separation of IT services from ERCOT ISO.

In response to Michehl Gent's question about whether Mr. Grimm or Ms. Vincent kept any records of what happened during their meetings with FERC or NERC, Mr. Grimm said that he and Ms. Vincent take handwritten notes during their meetings and Ms. Vincent stated that a written agenda is prepared for such meetings with FERC.

Operating Reports

In response to Chair Newton's request for any questions about the Compliance Report, Dr. Patton asked questions regarding the November 2009 SCPS2 scores (page 5 of the Compliance Report) and asked whether the one non-wind QSE that failed the metric was doing this for a second month. Victor Barry stated he did not believe it was the same entity, and Jeff Whitmer, who was available by phone, stated that although this appeared to be a possible violation at the time the Compliance Report was prepared, the entity had subsequently provided additional information and actually had passed the metric.

Dr. Patton questioned whether the Violation Tracking Report scores were creeping higher. Jeff Whitmer advised the Board they were not seeing any such trends, and that the scores had been at approximately the same level for a while. Chair Newton asked Texas RE staff to highlight for the Board when violations began to trend higher or lower. Mr. Barry stated that many of the registered entities had improved reliability and were doing a better job of achieving compliance and hiring staff in compliance. He reported that, in general, Texas RE had seen improved efforts from nearly everyone in the ERCOT region.

Mr. Gent questioned the number of gray fields on the Violation Tracking Report. Ms. Vincent noted that gray boxes indicated status changes, and an asterisk indicated that settlement discussions were in progress. Mr. Grimm stated that settlements take different periods of time to

complete and document, so it was likely that a number of the listed registered entities would remain on the reports for an extended period of time. Mr. Barry advised the Board that a “plus mark” (+) means Texas RE is anticipating a settlement response from the registered entity.

Texas RE Advisory Committee Report

Mr. Gent provided the Board with an overview of the discussions and actions of the Texas RE Advisory Committee (Committee) meeting.

Michehl Gent made a motion to appoint Ernst & Young as the qualified independent financial auditor for 2009. Mark Armentrout seconded the motion. The motion passed by unanimous voice vote.

Mr. Gent generally discussed the revised bylaws and amended delegation agreement for the new corporation, Texas Reliability Entity, Inc., and he reported that the Committee recommended that the current Texas RE Board recommend that the board of directors of Texas Reliability Entity, Inc. approve the bylaws and amended delegation agreement as presented in the materials, with no material changes. He explained that the recommendation included the appointment of individuals to serve as the formation directors of Texas Reliability Entity, Inc., as follows: Larry Grimm, Michehl Gent, Jan Newton, and Miguel Espinosa. Mr. Gent noted the discussion at the Committee regarding the NERC and FERC preference for the new corporation to have initial directors who were not on the current Texas RE and ERCOT boards, to show very clear separation from ISO. He said that Mr. Grimm, Ms. Vincent, and Committee members had acknowledged during the meeting that it would be virtually impossible to find qualified new independent board members in the required timeline. The Committee recommended that Mr. Grimm, Mr. Gent, Ms. Newton, and Mr. Espinosa act as the formation directors to take the actions needed to form the corporation, including approval of the amended delegation agreement, budget, and other documents required by NERC and FERC, approval of the CEO, approval for the opening of a bank account, and the formation of a nominating committee to select new independent directors for Texas Reliability Entity, Inc.

In response to Mr. Gent’s request, Ms. Vincent repeated for the Board that **Mr. Gent’s motion was that the Board recommends:**

- (1) The following individuals serve as the formation or initial directors of Texas Reliability Entity, Inc. who would perform formation and corporate organizational activities:**
 - a. Larry Grimm as CEO,**
 - b. Michehl Gent,**
 - c. Jan Newton, and**
 - d. Miguel Espinosa; and**
- (2) The initial board of directors of Texas Reliability Entity, Inc. approves:**
 - a. The bylaws included in the materials with no material changes and**
 - b. The amended delegation agreement included in the materials, with no material changes.**

Mr. Gent confirmed that this was his motion.

Dr. Patton asked Ms. Vincent provide the minutes or notes from the straw membership meeting. In response to his request that Ms. Vincent summarize the straw membership meeting again,

Ms. Vincent related that all potential members of the new organization (all registered entities) were invited to attend the November 24, 2009 straw membership meeting. She said that the votes taken at this meeting had no legal effect, but Texas RE wanted to confirm that the potential membership was in agreement with the proposed documents. She explained that the straw members agreed to remove (at its request) the Lower Colorado River Authority from the Cooperative Segment and voted to select the new name: Texas Reliability Entity, Inc. The straw members were also informed about the changes to the bylaws and delegation agreement since the last Board meeting, including that Texas RE would have an initial nominating committee, comprised of the initial formation directors plus two stakeholder representatives, and the new corporation would perform Protocol Compliance activities through December 31, 2010, at the request of the Texas Public Utility Commission (PUC). The meeting attendees then voted to approve the amended bylaws and delegation agreement as presented to the Board in the materials. Ms. Vincent explained that after the new corporation is formed, the actual membership will formally vote on the bylaws. Dr. Patton requested a summary or the minutes from the straw membership meeting. Ms. Vincent agreed to provide the notes from the meeting to the Board by the end of the day.

Nick Fehrenbach noted concern about a wording change to the bylaws that had been requested by the straw members, relating to the selection of the chair and vice chair of the Member Representatives Committee (MRC) (specifically Article 9, Section 4 of the bylaws). Mr. Fehrenbach stated that this section initially had requirement that the chair and vice chair of MRC (who are the affiliated directors) be from different sectors and also not be registered for the same NERC function. Ms. Vincent explained that the requirement that the chair and vice chair not perform the same NERC function was removed at the request of municipals and cooperatives, who feared that this prohibition might restrict a municipal or cooperative utility employees from being affiliated directors. Mr. Fehrenbach expressed his concern that the clause might cause the perception that the chair and vice chair might not be "balanced" as affiliated directors, but he said that he did not have suggested language to address the concern. Ms. Vincent acknowledged this was a potential concern, but stated that the chair and vice chair would need to be from different sector, and that the various sectors on the MRC would likely be self-policing and self-balancing to ensure that this could not happen. She also noted that this could also be addressed in the MRC procedures.

In response to Andrew Dalton's question about how long Texas RE staff anticipated that the new board and existing Texas RE Board would operate in parallel, Ms. Vincent informed the Board that FERC believed the earliest it could approve the amended delegation agreement for the new corporation would be May 2010. She said that Texas RE had to form the new entity to allow the new membership to approve the bylaws, and the new board of directors would need to approve the bylaws, delegation agreement, and budget before NERC will approve these documents for submission to FERC. The new board would not review or discuss compliance activities under the delegation agreement until after FERC approved the amended delegation agreement and budget, and all Texas RE employees would remain employed by the current Texas RE (overseen by the current Texas RE Board) until FERC approved the bylaws, amended delegation agreement, and budget. Ms. Vincent said there would be an approximately 60 day transition or implementation period after FERC approval to transfer staff, benefits, and activities to the new corporation. Shortly following the FERC approval, both the current Texas RE Board and the new Texas RE board would need to approve a separation document listing the transfer of corporate assets (including bank accounts) to the new corporation. Chair Newton noted that the current Board would likely continue to meet at least through June.

Mr. Dalton asked if, after the new entity was formed, if there would be a contract for performance of the ERCOT Protocol compliance activities. Ms. Vincent stated there would need to be a contract (probably a three way contract with PUC, Texas RE and ERCOT) for the new corporation to perform the Protocol compliance activities through December 31, 2010. She said that she understood that the PUC would perform a competitive process and have a contractual agreement with whichever organization performed these activities after December 31, 2010.

Mr. Espinosa reiterated the new board would act as a caretaker board with a single purpose to find new independent directors once all needed approvals for NERC and FERC were complete. He reminded the Directors that all of the day-to-day and operating functions will stay with the current Board until after the FERC approval, when the new board with its new directors would be ready to take over.

Chair Newton referred back to Mr. Fehernbach's issue about the chair and vice chair of MRC and asked the minutes reflect the Board does not want to restrict municipal and cooperative utilities and the intent is for the new corporation to always have a balanced board.

Michehl Gent reiterated his motion to recommend approval of the revised Bylaws and Amended Delegation Agreement. Miguel Espinosa seconded the motion. The motion passed with no abstentions and two votes against by Directors Andrew Dalton and Nick Fehrenbach.

Mr. Gent briefly discussed the proposed amended 2010 business plan and budget for the new corporation. Mr. Gent summarized the cost drivers associated with separation from ERCOT: \$1.3 million in one-time expenses, \$1.1 million in annual on-going expenses. Mr. Gent and Mr. Armentrout noted that the proposed budget for the separate corporation was 32% over the previously approved 2010 budget, not including the \$400,000 previously approved by the Board to cover the cost of Technical Feasibility Exceptions.

Michehl Gent made a motion to recommend that the directors of Texas Reliability Entity, Inc. approve the Amended 2010 Business Plan and Budget as included in the materials; Miguel Espinosa seconded the motion. The motion passed by voice vote with no opposition. Andrew Dalton abstained from the vote.

Clifton Karnei requested that Texas RE staff provide the Board with staffing numbers (including the increase from previous periods) when making any future budget requests. Mr. Karnei stated that the Board wants to keep track of the head count without having to search through the budget materials.

Separation Plan

Mr. Gent reviewed the current version of the Separation Plan, explaining that this document is a summary that gives a snapshot of all things that need to be done in order to separate Texas RE from ERCOT ISO. Mr. Gent said that changes are continuously being made to the document over time. In response to a question by Chair Newton, Ms. Vincent confirmed that Texas RE would update, post on the website, and distribute the Separation Plan to the Board with each month's Board materials in addition to posting a copy online.

Other Business

In other business, Chair Newton noted this was Mr. Armentrout's last meeting and the Board expressed appreciation and thanks for his work.

Mr. Dalton said that he had missed the Board's vote on the minutes, but he wanted to request revisions to the draft October 19, 2009 minutes in the materials. He asked the last sentence on

page two of the minutes be stricken and one sentence on page 3 be removed, because the sentences did not reflect what he was trying to convey.

Andrew Dalton made a motion to amend the October 19, 2009 minutes to strike the referenced sentences. Mark Armentrout seconded the motion. The vote passed with no opposition. Calvin Crowder and Robert Thomas abstained.

Future Agenda Items

Chair Newton noted Ms. Vincent already passed out a revised calendar and this may need to be revised further going forward.

Adjournment

Chair Newton adjourned the Texas RE Board of Directors meeting at approximately 2:13 p.m.

Susan Vincent
Corporate Secretary